11514 B4750-1

Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research &
Planning Division

Friday
(Noon)

Dec. 30, 1983

The notes from the FOMC meeting held November 14 and 15 were released last Friday (Dec. 23); they proved to be a disappointing Christmas present. No new policy was announced at the meeting. Therefore the last operative policy statement by the FOMC is from the October 4 meeting. That statement had directed open market operations toward maintaining the slightly reduced reserve restraint that had been sought just prior to that meeting. As of November 15, all members of the FOMC "found acceptable" a continuation of that policy. More ominously, however, Committee members seemed to be first concerned with the possibility of a continued strong economy. Thus the FOMC notes speak first of the possibility of a small precautionary step toward tightening.

One interesting feature of the report on the FOMC meeting is the clear distinction drawn between what the FOMC's staff has projected and what FOMC members themselves believe. The staff projects a slowing in the growth rate of real GNP. Less stimulus is expected from inventory rebuilding and housing; consumer spending is expected to slow. A continued decline in the unemployment rate is projected, and inflationary pressures are expected to remain moderate in 1984.

However, FOMC members note in their general discussion that the economic expansion has already remained stronger than "generally anticipated." Business optimism and consumer confidence are still high. While all FOMC members expected the rate of economic growth to moderate over the year ahead, differences exist over the timing and likely extent of the slowdown. Some members anticipated that the slowdown might be appreciably less than projected by the staff. Indeed, other members had the opposite concerns as policy remained unchanged.

Thus we can see that--at the time of the meeting--views were divided within the FOMC. Furthermore, the Committee had been surprised by the vigorous growth in the economy. The near-term misjudgment on the strength of recovery probably did nothing to help the credibility of the FOMC's staff forecast of an economic slowdown to come. Moreover, the continued strength in the economy since the November meeting has probably strengthened the hand of the skeptics. Because the Committee moved so quickly to ease late in the third quarter, it will now probably be less anticipatory and more reactive. Thus, given subsequent events, policy probably has firmed since the November meeting, even if it's not by enough for "firming" to be registered as a formal pronouncement. Yet, whether declared formally or not, weak growth in M1 greatly restrains the Fed's ability to firm policy if it so chooses.

Thus the stage is set for next year. And, given the way in which monetary targets normally are set (fourth-quarter average to fourth-quarter average), M1 will almost certainly start next year well below its target. This will be an important factor affecting policy early in the year. Afterward, money growth could become a problem again. You will be hearing more about M1's velocity as a policy factor next year because it appears to be behaving more normally. This also means that the Fed will be more concerned by any small excess in money growth than was the case this year. The Fed will put more weight on its credit aggregate next year. "Contemporaneous reserve accounting" will make it more difficult for the Fed to implement policy and for us to read it. But that's a problem for next year; have a Happy New Year!

Robert A. Brusca

Irving Trust

Market Yields

	12/29/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	11.00%	11.00%	11.50%
Effective since	8/8/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	8.50
Federal Funds	9.75	9.00	11.20
Repurchase Agreements	10.00	9.00	N.A.
U.S. Treasury Issues			
Bills			
3 months	9.33	9.22	8.19
6 months	9.71	9.68	8.41
1 year	10.06	10.06	8.68
Coupons			
2 years	10.84	10.82	9.48
4 years	11.36	11.29	N.A.
7 years	11.75	11.68	10.32
10 years	11.79	11.75	10.36
Long Bond	11.86	11.84	10.43
Negotiable Certificates of Deposit-Secondary Market			
1 month	9.65	9.75	9.12
3 months	9.65	9.75	8.64
6 months	9.65	9.85	8.64
1 year	10.10	10.15	N.A.
Banker's Acceptances			
1 month	9.90	10.02	N.A.
3 months	9.65	10.19	8.86
6 months	9.67	10.45	8.89
Eurodollar Deposits			
1 month	9.81	10.25	N.A.
2 months	9.88	10.25	N.A.
3 months	9.94	10.25	N.A.
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	9.96	8.89	N.A.
1 month	9.71	9.91	9.05
3 months	9.71	9.71	8.88
Bank Holding Companies			
1 month	9.45	8.94	N.A.
Dealer Placed:			
3 months	9.94	10.03	N.A.
New AA Corporate Utility Bond	12.88	13.15	N.A.
Tax Exempt			
6 month Project Notes	5.50	5.55	N.A.
1 year AAA Bond	5.50	5.80	N.A.
5 year AAA Bond	7.25	7.25	N.A.
20 year AAA Bond	9.30	9.40	N.A.

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

Cable Address:
"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241
W.U.I. 62832 • French 82629